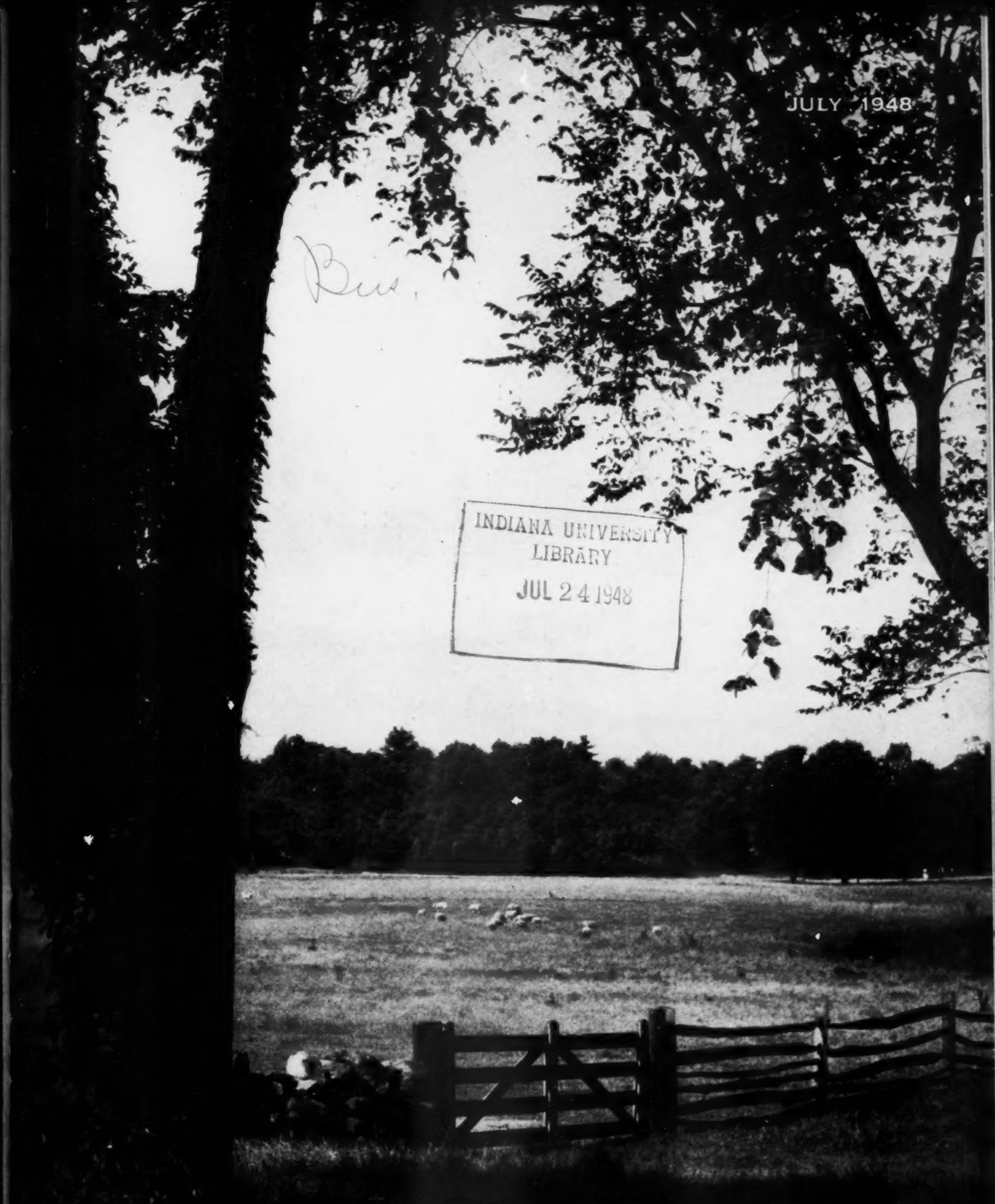
JULY 1948



Bus.

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Industrial Disputes and Production Prospects

Outlook for Sustained Output Volume Brightens for Remainder of 1948

The 1948 volume of industrial production appears likely to exceed the record peacetime level established last year—barring a further wave of industrial disputes. With excellent prospects that over-all demand will be sustained, the principal questions seem to lie on the supply side, particularly in the Seventh Federal Reserve District, characterized by highly integrated, well organized, mass production industries. Industrial strife loomed as a major threat to production earlier this year, and labor peace is still not assured, but the outlook has now brightened.

Recent key settlements of disputed issues in the coal, auto, rail, electrical equipment, telephone, and meat packing industries and the issuance of Federal court restraining orders against strikes in several other key fields reduce the likelihood that far-reaching work stoppages will impede seriously the over-all production rate during the remainder of 1948. Unfortunately, this improvement in the industrial relations outlook results from another "break-through" on the inflation front.

Man-days of idleness occasioned by actual work stoppages were greater during the first half of 1948 than in the same months in 1947, but far short of the all-time high established in 1946. Many factors account for the greater severity of industrial disputes to date this year, but chief among them have been the strongly held, conflicting objectives of: (1) unions, to obtain wage increases to "catch up" with rises in living costs since expiring contracts were signed and also to gain a larger share of record business earnings; and (2) managements, to resist such wage demands because of a belief that 1948 might be the year in which the long persisting wage-price spiral could be brought to a halt.

In the background, however, has been widespread unwillingness by the public, managements, and most workers to support or tolerate prolonged industrial shutdowns. Public opposition to national paralyzing strikes has prevented or shortened actual work stoppages, even though the specific points at issue have remained unsettled. The resurgence of inflationary pressures during the past few months, promising to sustain generally, if not increase, prices and production, moreover, has led some business managements to revise their views and grant more liberal wage increases than earlier expected. Because of the precarious financial position of many workers and their families and other reasons, there has been a good deal of clear-cut evidence that rank-and-file members are not anxious to go out on strike.

Currently the adjusted index of industrial production compiled by the Board of Governors of the Federal Reserve System is about 192 (1935-39=100), slightly under the level prevailing during the first quarter of 1948, largely because of the direct and indirect effects of the coal stoppage in March-April. If no further prolonged interruption in coal supplies, or other important industrial shut-down, occurs, the index can be expected to rise several points by the year-end. A sharp drop in this measure of production, however, will take place if the reverse situation materializes.

WAGE DEMANDS AND BUSINESS OUTLOOK

To a considerable extent, the pattern of disputes in 1948, as in other years, has been linked to expectations for general business and employment. During the first quarter of the current year, some general business measures showed marked tendencies toward a leveling-to-downward trend. Wholesale and consumer price indexes moved slightly but steadily downward, the commodity markets experienced sharp drops, and production and employment leveled or declined. Amidst these new developments, however, many annual reports of business firms were released showing record profits for 1947, and new Government spending programs appeared on the horizon.

Conventionally, and particularly in this mixed framework of expectations, workers and their representatives have tended to direct their attention upon last year's profits, while managements have looked ahead to the current year's earnings prospects. In the union view the purchasing power of many workers has fallen behind rising living costs, particularly since V-J Day. Not uncommonly this contention has been based upon some conviction that official indexes do not measure adequately the extent to which inflation has affected individual consumer living standards. This conviction, coupled with knowledge of large profits earned by business firms last year, seemed to present a fairly clear-cut case for sizable wage increases.

Managements, however, studying new wage demands in terms of probable levels of operating income for the coming year, foresaw potential financial stringencies in 1948 arising from higher costs, greater sales resistance, and the threat of tighter credit conditions. Weakened business expectations obviously stiffened management resistance to demands for wage increases. Subsequent developments, especially rearmament plans, European Recovery Program, and tax reduction, have resulted in improved expectations, and in turn caused many, if not most, managements to react more favorably toward wage increases than a few months earlier.

As a result of increases already granted or offered, the third round may be said to have, or soon will, become a reality for the vast bulk of organized workers. Raises have ranged from about five cents per hour in the case of certain textile, apparel, and lumber companies to 20 or more cents per hour for the building trades in many cities,

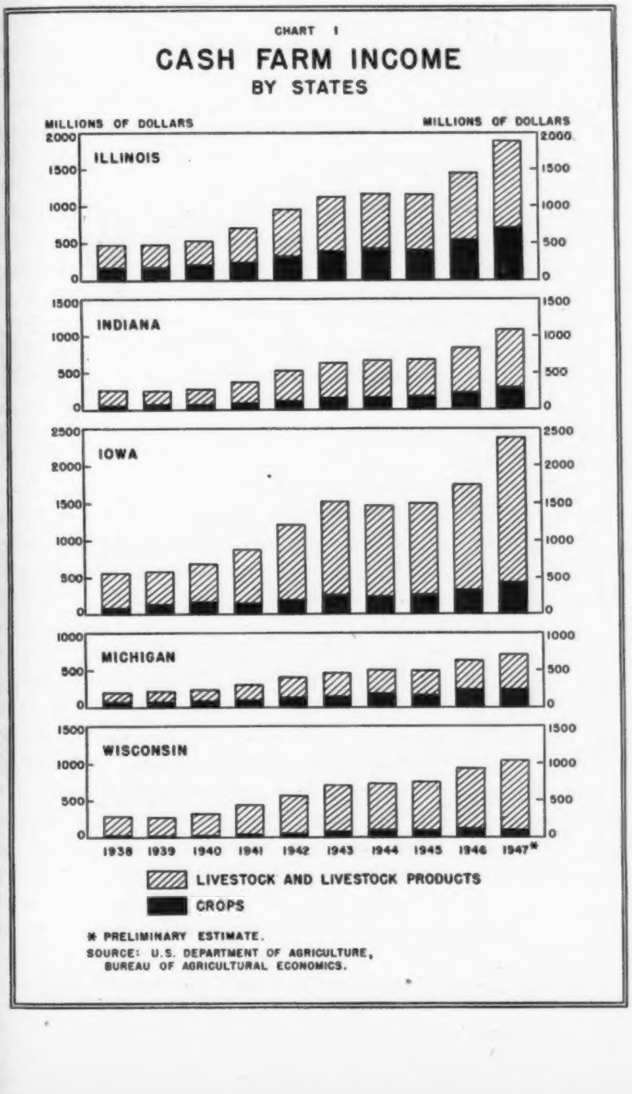
(Continued on Inside Back Cover)

Farm Income Sets Record

Both Prices and High Production Are Factors

Record levels of cash farm income during the past few years are a matter of common comment in discussing agricultural developments, but the magnitudes of some of the price, production, and income developments are not so commonly recorded. Developments in the American economy currently suggest that while 1948 may also be a year in which cash farm income will be of near-record proportions the peak may have been passed, with 1947 having set an all-time high for some time to come.

In the prewar years (1935-39) the cash receipts of United States farmers from farm marketings ranged from seven billion dollars in 1935 to nearly nine billion dollars in 1937, and averaged just under eight billion dollars for the five-year period. For 1942 the total of cash receipts from marketings had nearly doubled this prewar average, and in 1947 a total cash income of over 30 billion dollars again nearly doubled the 1942 total of 15.3 billion dollars, putting it at a level 3.8 times the prewar average. Approximately the same rates of gain during the period were shown for crops and for livestock and livestock products as that indicated for farm marketings as a whole. In other words, the income gains were consistent for the two major groups of commodities. This is not, of course, true for smaller groups including a few commodities, and particularly not true of income from individual commodities.



DISTRICT STATES SHOW PROPORTIONAL INCREASES

Four-fold expansion of income from farm marketings shown for the nation as a whole was also largely the pattern for the five states that lie in whole or in part in the Seventh Federal Reserve District.

By major groups the showing of some District states was more spectacular. The 1947 income from crops for Illinois, Indiana, and Iowa was four, four and one-half, and five times, respectively, the level of 1935-39. The ratio of 1947 crop income to the prewar average was substantially smaller for Michigan and Wisconsin, close to three-to-one for both states. Income from livestock and livestock products showed about the same rates of relative increase as did the U. S. as a whole in Illinois, Indiana, and Iowa with 1947 cash receipts running 3.8 to 4.2 times the prewar averages. Increases for Michigan and Wisconsin were at slightly smaller rates with ratios of around 3.5 times the prewar income. These differences in ratios, which after all are only crude, abstract ways of measuring relative increase, are minor and should not obscure the fact that for all the states of the District the cash farm income increased remarkably over the period, as the accompanying chart shows. What these differences do add up to is that while for the country as a whole the rates of increase in cash farm income were strikingly parallel for both crops and livestock and livestock products, all the states of the District showed somewhat greater increases in income from crops than from livestock and livestock products. Even this difference should not be allowed to obscure the fact that livestock and livestock products are by far the predominant source of cash income to Seventh District farmers. For the U. S. as a whole sales of livestock and livestock products account for 55 per cent of total cash receipts from farm marketings. In this District they make up three-fourths of the total. In Illinois and Michigan they bring in 60 to 65 per cent of the total cash income to farmers, in Indiana they account for about 75 per cent of the total. In Iowa and Wisconsin livestock and livestock products are of even greater im-

portance as a source of farm income. In Iowa they account for about 85 per cent, and for Wisconsin the sale of this major group of farm commodities accounts for nearly 90 per cent of all income for marketings.

PRICE INCREASES A MAJOR FACTOR

The inflationary period of the past few years has brought farm commodity prices, along with other prices in the economy, to record or near-record levels. For the U. S. as a whole the 1947 farm price level was about two and two-thirds times the level that prevailed during the five prewar years, 1935-39. Aside from the general inflationary nature of the wartime and postwar economy, abnormal demands for military use, for aid and relief to other parts of the world, and from a prosperous domestic population had placed price premiums on farm products, putting them at levels that are materially higher than normal or usual relationship to other prices.

Prices of both major groups, of livestock and livestock products and of crops, have moved up to new high levels, but relative to the 1935-39 situation prices of the crop group have risen farther than those of the livestock group. The accompanying chart indicates the crop prices began to overtake livestock and livestock product prices generally during 1942 and continued to outrun the latter until 1946 when livestock prices began to move rather rapidly above the relatively stable levels that had prevailed under price control during much of the three-year period 1943-45. By 1947 the index of U. S. prices for all crops was nearly two and three-fourths times the 1935-39 level, while the livestock and livestock product price index was two and one-half times the prewar level.

Price indexes for farm commodities for each of the states of the Seventh Federal Reserve District had by 1947 reached approximately common levels 2.6 to 2.7 times prewar levels. But there were some noticeable differences between the states in the times at which the increases came during the intervening years. The rises came earlier in Michigan and Wisconsin than in the other three states. Of the total of increases in farm prices above 1935-39 through 1947 in each of the states, two-thirds of the increases in Illinois, Indiana, and Iowa came during the two postwar years, 1946 and 1947, while only half of the total increases in Michigan and Wisconsin occurred during the postwar years.

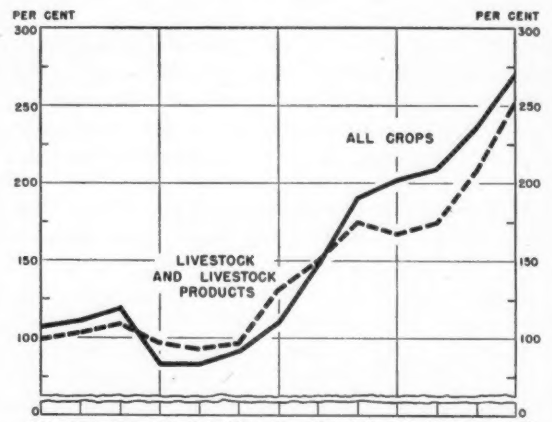
MORE PRODUCTS SOLD FROM FARMS

Important as have been the price increases in swelling farm incomes to record levels, an additional factor of very great importance was the expansion in agricultural production that has taken place in the period since 1941. The rising crescendo of farm output had reached a level by the end of 1947 about 30 per cent above the prewar average. This intensification of farm effort resulted in an even greater expansion in the amounts of farm products marketed. Comparing the five years 1943 through 1947 with the 1935-39 period, it appears that farmers of the nation marketed about 40 per cent more products, in physical quantities, than they did in the prewar period. There was an increase of nearly one-third in the physical volume of crops marketed and a step-up of nearly one-half in the physical marketings of livestock and livestock products.

CHART 2

PRICES RECEIVED BY U.S. FARMERS

(1935-39 = 100)



SOURCE: U.S. DEPARTMENT OF AGRICULTURE, BUREAU OF AGRICULTURAL ECONOMICS.

It is somewhat misleading, however, to make such comparisons with 1935-39 as a prewar period because of two major droughts during that interval which greatly reduced marketings during 1934-36.

In spite of these limitations there may be some interest in making state comparisons between 1942-47 and the 1935-39 period. After all, the earlier period was one through which most farm families had to keep going; it was a period when the welfare of agriculture was one of the paramount economic and social issues, and there is therefore some point in gauging how much the position of the farmer has improved since the late 1930's.

Comparing, then, the aggregate of marketings in 1942-47 with 1935-39, Iowa among the District states stands out with a record showing 63 per cent greater marketings in the later period. It appears that Iowa reached its peak year in this respect in 1943 when the data indicate marketings to have been approximately 70 per cent above the 1935-39 average. The peaks for the other states came in 1946 or 1947. The marketings from Illinois and Indiana farms during the war and postwar period totaled 40 per cent to 45 per cent more than in the late 1930's. The stepped-up rates for Michigan and Wisconsin for the same periods were 27 per cent and 33 per cent, respectively.

PRICES AND MARKETINGS WEIGHED

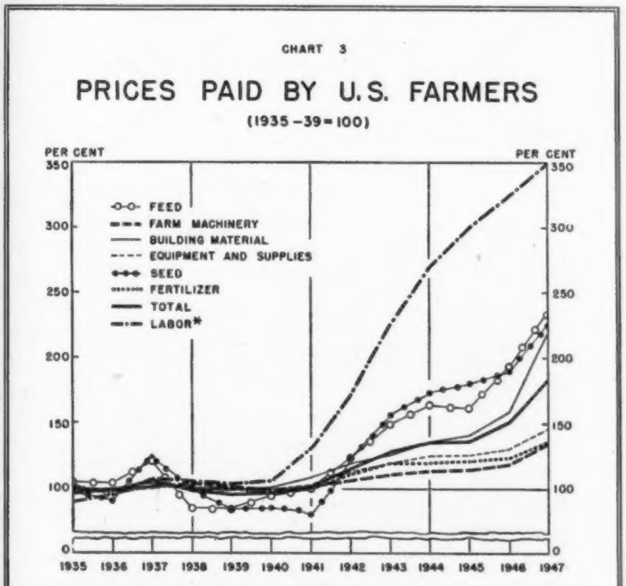
Having touched on both increased prices and magni-

fied marketings as factors in expanded cash farm receipts from marketings it remains to assess the relative importance of the two factors in the cash farm income situation. In other words, farmers have received more than they did in prewar years not only because they have received higher prices for what they sold, but also because they produced and sold more. What is the relative importance of each in the cash income received? For purposes of making the comparisons we shall use the average of the six war and postwar years, 1942-47, as representing the current or recent situation, and the average of 1935-39 as a typical or representative prewar year. In order to reduce figures to easily understood terms the cash receipt figures were reduced to a per acre amount, using the 1940 Census total of all land in farms in acres for each state.

The cash receipts from marketings from Illinois farms in the prewar period averaged $15.43 per acre in farms. For the 1942-47 period the average cash receipts per acre was $41.46. The increase between the two periods amounted to $26.03, of which $12.69 or 49 per cent was due to the increased physical quantities of products marketed and sold at the record high prices. The balance of $13.35 was due to the influence of higher prices and is the amount of increase in gross returns per acre if there had been no expansion of output and marketings from the farm.

The Indiana marketings returned $13.44 per acre in the prewar period. For the 1942-47 period these returns had increased to $37.62, an increase of $24.18 of which about half or $12.04 is attributed to the increase in marketings and $12.14 to higher prices on quantities marketed equal to the prewar level.

For Iowa the showing is outstanding. The prewar per acre value of marketings was $15.82. For the recent period this average rose to $48.10. Of the increase of $32.28 per acre, $18.55 or 58 per cent is credited to the increase in the physical quantities of products marketed and the balance of $13.73 to the influence of the higher prices prevailing in the latter period.



Returns to Michigan farmers in the 1935-39 period averaged $12.13 per acre. For the 1942-47 period this average was $29.70, an increase of $17.57. Of this increase $6.48 or 37 per cent may be credited to increased marketings, and the larger balance of $11.09 represents the effect of increased prices if there had been no increase in marketings.

The average prewar cash receipts for Wisconsin were $12.98 per acre. For the recent period this average increased to $34.50, a rise of $21.52. Of this increase $8.74 or 41 per cent was due to the increased physical quantities sold, and the balance of $12.78 was due to the higher price level.

It might be argued against these estimates of the relative importance of prices and increased marketings in gross cash income that too much credit is given to the increased rates of physical marketings arising out of expanded production, argued on the ground that had there been no increased production, prices would have been of necessity much higher. But throughout much of 1942-47 farm prices were directly or indirectly under varying degrees and kinds of price control, and it is therefore impossible to conjecture what the price situation would have been in the absence of the larger output from the nation's farms. It might also be argued that had there been no price increase, there nevertheless would have been a substantial increase in production because of the technological changes that have been developing in agriculture the last 10 years. But the fact remains that from the farmer's viewpoint his increased gross income is about half due to higher prices and the other half a "reward" for the increased quantities he produced and sold.

Thus far the discussion has been entirely in terms of gross cash income. It cannot be too much emphasized that these billions of dollars of gain in cash income have not accrued directly to the farmer in the form of increased real income. The expenses incurred for agricultural production have risen two or three times their prewar levels. Prices paid for items used in production, as is usual in a period of rapidly rising prices, have tended to lag behind the prices received by farmers. The accompanying chart shows the trend in prices of production items. During the period 1942-47 these prices averaged on the whole nearly twice the 1935-39 level. In addition to the increased prices of items used in production as shown on the chart, estimates indicate that farmers used about 20 per cent more of the physical quantities of such items during the latter period than they did on the average in the prewar years.

In spite of these cost factors, however, and favored by high prices and increased farm output, the nation's agriculture achieved in the period 1942-47 an average yearly net income from farming two and one-half times that realized as an annual average for the period 1935-39.

Business Loans Decline in First Half of 1948

Real Estate Lending Continues Upward

The volume and nature of commercial bank loan expansion have been given much emphasis in recent months by monetary observers and financial analysts. A diversity of opinion has arisen as to the significance which should be attached to the reported slackening in the pace of new lending since the beginning of the year and as to loan prospects for coming months.

On December 31, 1947, total loans of reporting member banks throughout the country amounted to 23,329 million dollars. Fluctuating within a narrow range below and above this volume, loans of these banks dropped to a low of 23,160 million on April 28 but by June 23 had risen again to a level of 23,788 million dollars. From the end of 1947 to late June 1948 total loans of reporting banks increased by less than two per cent, compared with a gain of over 20 per cent in the corresponding period of the previous year.

Of the five major loan classes—business loans, loans on securities, real estate loans, loans to banks, and other loans—only business loans (commercial, industrial, and agricultural) showed an actual decline, 400 million dollars, between the end of 1947 and June 23, 1948. This decline of almost three per cent compares with a gain of nearly 15 per cent in business loans in the comparable period of 1947. New York City reporting banks alone accounted for almost half of the nation's decline in business loans. Despite the tightening of real estate credit conditions, especially in the Seventh District, real estate loans of reporting member banks have advanced steadily in 1948. In fact, this type of loan has been the only category to show a sizable growth, although the rate of gain is about one-third less than in 1947.

Seventh District reporting banks, in contrast to the nation, had an actual decline rather than a slackened growth in total loans since the end of 1947. This decline, amounting to 54 million dollars, reflects reduction in business and security loans in amounts more than sufficient to counteract gains in the other loan classes. It occurred primarily in the first three months of the year. Chicago banks alone showed a decline of 64 million dollars in business and 29 million in security loans. These figures, however, indicate that District banks as a whole, excluding Chicago, have experienced an increase in loans—even business loans. Available figures for reporting banks in Detroit also show some growth in commercial and industrial lending. Chart 1 illustrates developments in loan portfolios of reporting banks in the Seventh District in the past 18 months.

In determining the extent to which bank lending has actually leveled off in 1948, the influence of several factors has to be taken into consideration. In the first place, the loan figures as cited above apply only to weekly reporting banks in some 94 leading cities. Thus these figures tend to include only selected banks generally in the larger cities throughout the country. The slackening in lending reflects principally a decline in commercial and industrial loans, and the bulk of this type of loan is made by the larger banks in the major cities. Total loans at all commercial banks rose by 1,355 million dollars, from 38,055 million to 39,410 million, between the end of 1947 and May 26, 1948. Moreover, there is evidence that much of the reported decline in business loans was attributable to a shift in loans from banks to other financial institutions, notably insurance companies, so that no over-all contraction in business credit resulted.

Another factor to be considered is seasonality. Some curtailment in the rate of loan expansion has taken place in the first few months of each year since the end of the war. Therefore part of the decline in 1948 may be attributed to this seasonal pattern. Furthermore, business loans are the major element contributing to this seasonal downswing. Their relative importance in the reporting bank series, consequently, gives inadequate emphasis to the continued growth in other types of loans. However, even with allowance for seasonal influences, the slackening in the rate of lending this year has been much more marked.

CAUSES OF LOAN BEHAVIOR

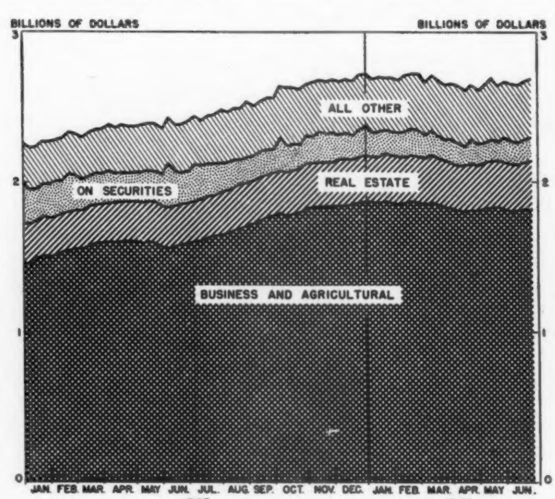
This contraction in business loan volume and the slowing of rates of increase in other types of loans are attributable to a number of interacting forces which have

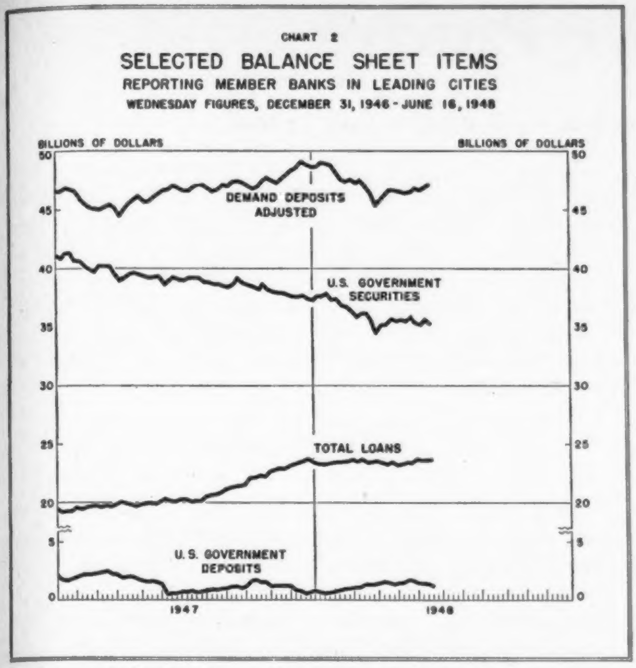
CHART 1

LOANS OF REPORTING MEMBER BANKS

SEVENTH FEDERAL RESERVE DISTRICT

WEDNESDAY FIGURES, DECEMBER 31, 1946 - JUNE 23, 1948





influenced both the willingness of banks to lend and the desire of the business public to borrow. The lowering of the support levels on marketable Government securities on December 24, 1947, by the Federal Open Market Committee caused widespread uncertainty in financial circles regarding the most appropriate future lending and investment policies for commercial banks, and in many specific instances at least resulted in tightening of credit conditions. This action, together with scattered instances of distress among business firms, seems to have led to more conservative lending practices among many banks. Bank supervisory authorities issued joint statements calling attention to the need for curtailing bank loan expansion under prevailing inflationary conditions. The American Bankers Association through a nationwide educational program undertook to bring about some restraint on undue bank credit expansion through voluntary means.

To some extent the recent reduction in business loans, particularly in New York and Chicago, resulted from the higher-than-expected fourth quarter 1947 earnings of many companies. Moreover, a number of corporations were able to obtain needed funds directly from the capital market. Inventory liquidation also played a part in certain lines. Not only did higher earnings, new financing through security issues, and inventory liquidation obviate the necessity for additional borrowing from banks, but in some cases permitted partial or full repayment of outstanding bank loans. The sharp break in commodity prices during February also instilled a measure of caution toward future borrowings among business managements comparable to what the earlier drop in the Government bond market did in causing some bank executives to modify their views toward further immediate loan expansions.

Quite recently, there have been some signs of a revival in the expansion of business loans. During the last month, weekly reporting banks showed increases in commercial, industrial, and agricultural loans for three consecutive weeks, the most consistent period of gain since last year. In the last week in the month, however, a small decline was reported, and thus any upward trend was broken, at least temporarily.

Several developments point to continued heavy demand for business loans from banks during coming months. Despite scattered instances of depressed businesses and increasing financial stringencies among many consumer groups, inflationary forces continue to dominate economic conditions.

ADJUSTMENTS IN SECURITY PORTFOLIOS

Drains on bank reserves and need to sell Government securities were extremely marked in the first quarter of the year as a result of the Treasury's use of its cash surplus to retire Federal Reserve holdings of Government securities. From early April through mid-June the Treasury engaged in a new series of withdrawals from war loan accounts, the first since early January. The restrictive effect on bank reserves of these calls as well as of heavy income tax receipts, particularly in June, was offset to a considerable extent by cash payments for maturing securities, interest payments to the public, and a recent upswing in gold imports. Effective June 11, furthermore, the Reserve authorities raised reserve requirements for central reserve city banks from 22 to 24 per cent. This two point increase meant an additional 500 million dollars in required reserves—400 million dollars at New York and 100 million at Chicago.

Treasury operations and increased reserve requirements forced banks to convert some of their holdings of Government securities into additional reserve funds. On December 31, 1947, total Governments held by reporting member banks amounted to 37.2 billion dollars. By March 31 these holdings declined to a low of 34.4 billion but on June 23 stood at 34.9 billion. The bond portfolios of these banks, however, declined almost steadily throughout the period and on June 23 were 3.6 billion below the end of 1947. Part of this reduction in bonds consisted of cash retirements or exchanges into shorter-term issues at maturity. Banks apparently made more extensive use of short-term bonds in adjusting their reserve positions, particularly in the first three months of the year. On the other hand, banks tended to build up their holdings of bills and certificates, partly through direct purchase and partly as a result of exchange operations. These operations resulted in a general shortening in maturity of reporting bank Government security portfolios. A striking example of the use of short-term securities to replenish depleted reserves occurred in the week ended May 26. On May 19 excess reserves of member banks amounted to approximately 330 million dollars, the low point on Wednesday reporting dates in many years. In the following week reporting banks disposed of over 600 million dollars of Treasury bills. In Chart 2 a comparison is made of changes in total loans, Government security holdings, Government deposits, and demand deposits adjusted of all weekly reporting banks since the end of 1946.

Current Price Patterns

Individual Weaknesses Fail to Halt Upward Over-all Trend

Like its March-May 1947 predecessor, the downward movement in consumer and wholesale prices in the first quarter of 1948 proved to be only a temporary interlude in the general war and postwar upward trend. The renewed moderate rise which began in April of this year throughout the Seventh Federal Reserve District and nation seems likely to continue at least for several months. Underlying this development is the revival of inflation psychology consequent upon increasing certainty of greater private and public spending.

As indicated by the 1948 Survey of Consumer Finances sponsored by the Board of Governors of the Federal Reserve System, consumers are optimistic about their 1948 incomes, and hence their spending prospects. Recent negotiated wage increases in the automobile industry and the emergence of a definite third-round wage increase pattern obviously have strong inflationary implications. Although its immediate effect is to narrow the lag between wages and prices, business concerns are put under longer-run pressure to consider further price rises as a means of offsetting higher costs. Lowering present above-average profit margins would provide only a partial offset. Reduced personal income taxes, dissaving, and increased reliance on credit are continuing to represent important additions to spending power on the part of many consumers. For the first time since the end of the war there was in 1947 a significant rise in the number of dissavers among the medium ($3,000-$7,500) annual income groups.

Federal spending in 1948 will exceed the 1947 level. As indicated in the May and June issues of *Business Conditions,* anticipated expenditures of business and state and local governments are also considerably higher in 1948 than were the corresponding actual expenditures during the previous year.

In spite of the likelihood of sustained strong aggregate demand by consumers, business firms, and governments, the supply-demand relationships for individual commodities are becoming increasingly varied. As a result, price patterns among individual commodities are growing more divergent, and the rate of increase in the over-all price indexes seems likely to be considerably less in 1948 than in either of the two preceding years. In general, supply conditions are more favorable in the nondurable than in the durable goods sector. Nondurable goods are also being subjected to greater downward price pressure by virtue of the fact that consumers are readjusting their relative spending patterns in favor of durables. Exceptions exist, of course, notably meat in nondurables and radios in durables.

The pressure of income lagging behind prices has intensified the search for price-quality "bargains" on the part of large numbers of white collar and factory workers. As part of their "price competition" programs, many manufacturers are once again restoring "second" lines temporarily discontinued during the war. Reappearance of such lines is reflected in the much sharper increase in Seventh Federal Reserve District basement sales than in main store department store sales since the middle of 1947, a trend which reversed the early postwar experience and which has shown an accelerating tendency in the last several months.

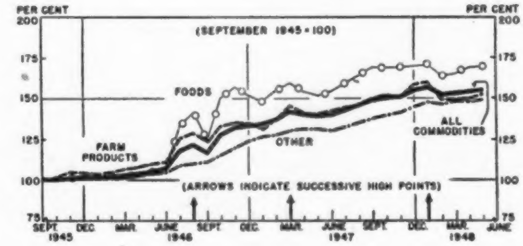
WHOLESALE PRICES

As a result of a rise since V-J Day of almost 58 per cent, wholesale prices reached an all-time peak in January 1948. They have now virtually retraced the February drop of three per cent, are about 10 per cent above the level of March 1947, and give strong indication of setting a new record soon (see Charts 1 and 2). Both the March-April 1947 and February 1948 declines resulted from weaknesses in grains (cereals) and livestock (meats). In February, farm product prices fell eight per cent and food prices four per cent. Containing relatively inflexible processing margins, food prices normally tend to move more sluggishly than farm product prices.

The recent meat strike created an abnormal situation and is probably responsible for the faster and somewhat greater recovery of food than farm product prices since February. The strike withdrew the major packers from the livestock market and thus had a temporary depressing effect on livestock prices. The shortage of dressed meat eventually had the opposite effect on prices charged retailers in wholesale markets. Following the end of the strike in mid-May, livestock prices increased sharply and carried the farm product price index rapidly forward. As a result, and in spite of weaknesses in grain, average farm

CHART I

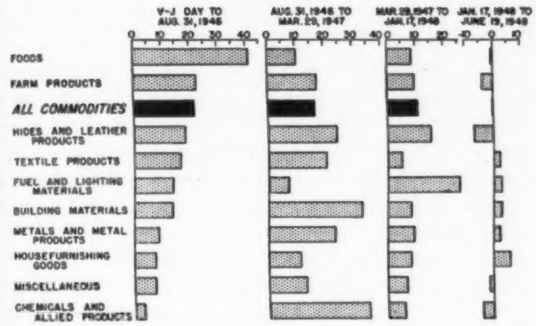
WHOLESALE PRICES CONTINUE TO ADVANCE BUT AT A SLOWER RATE



SOURCE: U.S. BUREAU OF LABOR STATISTICS.

CHART 2

PERCENTAGE CHANGES IN WHOLESALE PRICES BETWEEN SUCCESSIVE POSTWAR HIGH POINTS



SOURCE: U.S. BUREAU OF LABOR STATISTICS.

product prices, like average food prices, are now nearing the January 1948 peak.

Because of a basic relative shortage of meat animals, livestock and meat prices probably will show continued strength for at least the balance of the current year. Grains—the other major component of the food and farm product groups—may counteract the buoyant influence of livestock and meat prices. This will particularly be the case if the outlook for wheat and corn crops continues favorable. Hence, farm product and food prices may again turn down slightly by the end of 1948.[1]

Among the other nondurables, the outstanding example of price weakness has been in hides and leather products. This reflects some uneasiness on the part of retailers concerning consumer reactions to current, let alone higher, shoe prices. As a result, leather goods retailers have moved slowly in placing orders with manufacturers for fall styles. Although there have been slight declines in certain cotton goods prices in recent weeks, earlier anticipations of generally falling textile prices thus far have failed to materialize. Men's suits and overcoats, in fact, have shown considerable strength, and some manufacturers predict further rises of five to 10 per cent by fall. At the other extreme from hides and leather products are fuel and lighting materials which since March 1947 have advanced more than one-third. The sharp postwar increase in demand for oil, electricity, and gas is still outrunning the erection of supply facilities to meet this demand.

Wholesale prices of durable goods as a whole show no immediate signs of reversing their steady postwar uphill drive. Since March 1947 housefurnishing goods have risen 15 per cent; the corresponding figures for metal products and building materials are 12 and 11 per cent, respectively.

Recent events have practically eliminated whatever hope of holding the general price line which may have been engendered by the steel price reductions of several months ago. These events include: (1) the already noted emergence of a definite third-round wage pattern in most durable goods industries and recent Congressional approval of raises for Federal workers; (2) the possibility of further increased costs from higher freight rates, coal prices, and perhaps even metal prices, three sets of prices which permeate the whole industrial structure; (3) greater realization of the eventual impact of the defense program on durable goods available to the civilian part of the economy; and (4) indication by the 1948 Survey of Consumer Finances that consumer expenditures for durable goods (including houses) will continue in expanding volume.

The reported strong revival of gray markets in steel and other metals and recently announced price increases by major manufacturers in the automobile, electrical appliance, and farm machinery industries provide tangible evidence of sustained price strength in durables. Many, if not all, manufacturers of durable goods are giving serious study to the extent to which they can absorb added costs without further price rises.

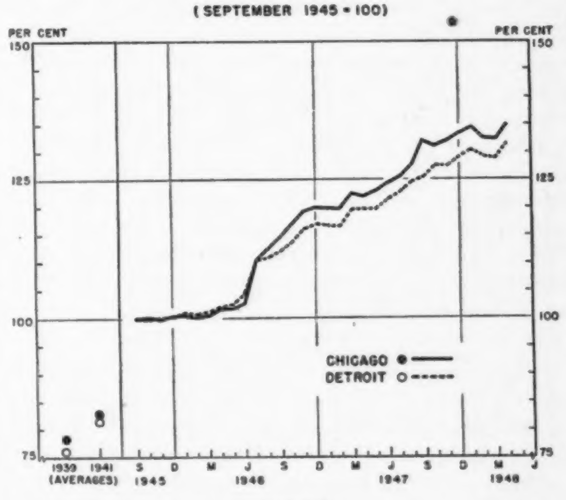
COST OF LIVING

Although exhibiting less fluctuations, the cost of living has experienced a postwar pattern similar to that of wholesale prices. For the nation as a whole consumers prices have increased approximately 31 per cent since V-J Day. The experience has varied somewhat among cities. Within the Seventh Federal Reserve District, for example, the postwar cost of living has risen 35 per cent in Chicago and 31 per cent in Detroit (see Chart 3). Comparable figures since March 1947 have been about 10 per cent for Detroit and Chicago and eight per cent for the nation. With consumer incomes and spending

CHART 3

POSTWAR COST OF LIVING RISES MORE IN CHICAGO THAN IN DETROIT

(SEPTEMBER 1945 = 100)



SOURCE: U.S. BUREAU OF LABOR STATISTICS, CONSUMERS' PRICE INDEX.

[1]See the articles on farm prices in the May and June issues of *Business Conditions*.

expectations remaining high, consumers prices promise to continue to rise further in the months immediately ahead.

In spite of slight declines in March 1947 and February-March 1948, food prices increased about 11 per cent between March 1947 and April 1948. Only the fuel-electricity-ice category showed a greater rise, slightly over 11 per cent, each of the other four major groups, i.e., apparel, rent, housefurnishings, and miscellaneous, increasing about seven per cent. Largely because of the meat situation, food prices turned up markedly in April and may be expected to lend intermediate support to further rises in cost of living. Such intermediate support may also be expected from some apparel and housefurnishings items. The supply situation is rapidly improving in both groups, however, and will sooner or later reverse the steady, gradual upward price trend of the past year. Within apparel the prices of women's clothes already have moved downward somewhat.

In view of the probable longer-run weakening of food, apparel, and housefurnishings prices, chief support to the cost of living after the latter part of 1948 will tend to shift to rent, fuel and electricity, and a number of miscellaneous items including transportation, medical care, household operation, and personal care. Given the extreme housing shortage, further weakening of rent control after the present law expires on February 28, 1949, of itself would markedly raise the cost of living to the average city dweller.

Consumers in the aggregate are now much better off in both money and real terms than they were in 1939. Compared with 1944, the peak wartime year, however, manufacturing production workers on the average have gained approximately four dollars in weekly take home pay and have lost about four dollars in terms of what that take home pay will buy (see Chart 4). (In the last few months their real take home pay has risen slightly.) The loss in real purchasing power has been even greater among salaried workers, who as a group have received fewer and smaller increases in pay since V-J Day than have production workers. As a consequence, many consumers have become much more selective in buying, thereby giving rise to the many instances of specific goods piling up on retailers shelves in the midst of a situation in which over-all income and spending continue to rise. Examples of such inventory accumulations include many women's apparel items, costume jewelry, luggage, handbags, and electric irons. In time, of course, these spotty situations may tend to accumulate sufficiently to exercise greater influence on over-all price trends.

INFLATIONARY PRESSURES STILL DOMINANT

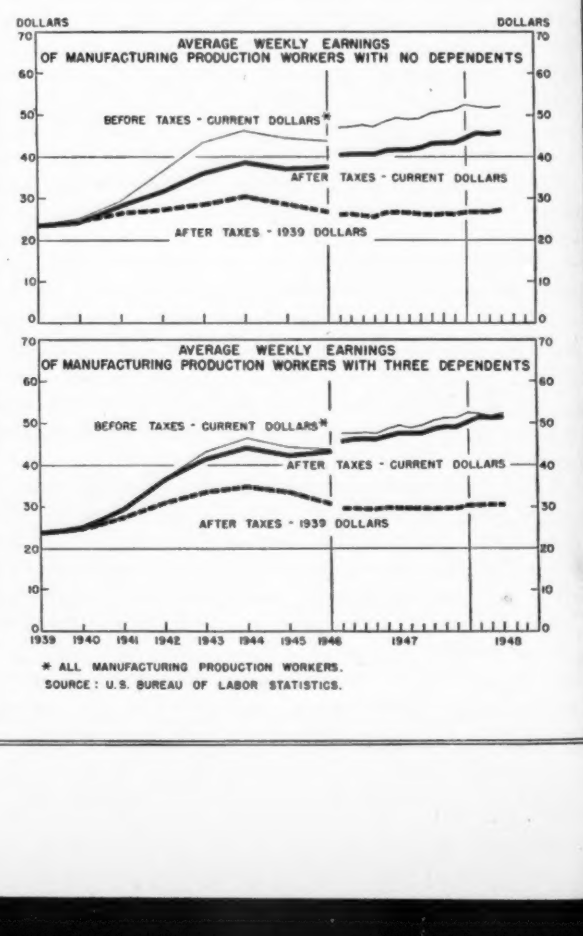
The strong behavior of the stock market in recent months has been heralded widely in financial circles as an indication that inflationary pressures still remain the dominant force in the American economy. Since their low point last spring, the Dow Jones industrial and rail averages have shown respective rises of 16 and 27 per cent. The revival has added inflationary significance coming on top of a two-year slump in stock prices because it may mean that one of the strongest anti-inflationary sectors in the economy is shifting its position to the opposite view.

Disposable income in 1948 promises to exceed the 1947 level in moderate degree. Consumers expect, however, to expand their expenditures to a greater extent than their incomes. As already indicated, some individual consumers will be enabled to increase their spending faster than their incomes by dissaving and using credit. However, for consumers as a whole saving will be positive, and therefore if increases in aggregate spending are to exceed gains in aggregate income, the only real alternative is credit. This means added demands for funds from financing institutions, demands which these institutions may find difficult to resist.

It is true that the volume of consumer (including mortgage) credit remains low relative to disposable income or gross national product by prewar standards. More important than absolute size, however, is the fact that each net increase in credit is adding more money purchasing power in a situation in which such purchasing power is already too great relative to the supply of goods against which it is directed. Whatever the longer-run problem may be, therefore, the task for the remainder of 1948 and well into 1949 appears on balance to be one of combatting inflation, i.e., further price rises.

CHART 4

REAL EARNINGS FALL UNDER V-J DAY LEVEL BUT EXCEED PREWAR AVERAGE



* ALL MANUFACTURING PRODUCTION WORKERS.
SOURCE: U.S. BUREAU OF LABOR STATISTICS.

INDUSTRIAL DISPUTES

(Continued from Inside Front Cover)

but the average seems to be about 10 cents per hour. Applied to the average hourly earnings of all manufacturing workers, the typical third-round raise amounts to about 7.5 per cent—one more step toward a long-run higher cost-price structure.

EFFECTS OF WORK STOPPAGES

Four main attributes, (1) nature and scope of the industry, (2) number of workers directly involved, (3) duration, and (4) existing inventory situation, go farthest in determining the effects of a stoppage on output.

Strikes in mining, communications, transportation, and primary raw materials processing tend to have much more damaging effects than stoppages in the plants turning out finished products. A half million coal miners or a similar number of railroad workers can affect the operations of millions of other production workers, whereas a half million workers in plants turning out finished production will affect primarily the operations of their own industry and its suppliers.

During the first quarter of 1948, three national work stoppages in coal, automobiles, and meat packing directly affected nearly 500,000 workers and indirectly several times this number. Interruptions of this magnitude, especially if they continue for some time, are certain to have measurable effects upon production. For example, the full loss of steel due to the coal strike this year is estimated by *The Iron Age* at about 1.65 million tons.

With "normal" inventories it commonly takes about three weeks for a major industrial stoppage involving raw materials or semi-finished products to have serious repercussions upon final manufacturing operations. This period obviously will vary widely with the industry and the volume and nature of inventories on hand. Under conditions of inventory stringencies, e.g., coal for steel and steel for automobiles, the effects of a stoppage clearly are more immediate. In some instances, however, a strike may actually provide an opportunity for stock piling of scarce items, and insure steadier production later. Needless to say, inventories bulk high in bargaining strategy both with labor and with management.

SEVENTH DISTRICT DISPUTE LOSSES

During the first half of 1948 about two million man-days appear to have been lost directly in the Seventh District states because of major industrial work stoppages. This number represents approximately 20 per cent of all time lost in major nationwide strikes. During the comparable period in 1947, a year characterized by relative absence of serious strikes, the District states accounted for 18 per cent of a much smaller aggregate time lost through work stoppages in the nation. In the record year of 1946 these same states experienced more than 25 per cent of all time lost, reflecting a much greater than average incidence of plant shutdowns in this District, a condition commonly observed in past years and likely to obtain in the future.

So many intangible factors affecting production exert their influence before, during, and after an industrial dispute involving a stoppage that it is difficult to estimate the amount of production which is actually "lost." Ofttimes intermittent shut-downs, "wild-cat strikes," lay-offs in certain departments, and a general let-down in worker efficiency will precede the actual stoppage. In basic industries an extended period of time is required after the dispute is settled to get into production again. Moreover, losses in output among firms indirectly affected by an initial plant shut-down may be substantial, even greater at times than at the "struck" establishment, and may occur well after the original dispute has been settled.

Further analysis of the loss of steel production since the end of the war reveals the District's extreme vulnerability to industrial disputes. During the postwar period it is estimated that more than 20 million tons of steel ingots have not been produced because of work stoppages. Since the Seventh District produces roughly 20 per cent of total national steel output but consumes nearly twice this amount, any interruption in steel-making clearly has far-reaching effects not only on District steel mill operations but, more important, upon the major steel consuming industries.

STRIKE ISSUES AND PROSPECTS

Ninety-five per cent of all man-days of idleness due to stoppages in 1947 resulted from disputes in which wages, hours, or union organization[1] was the major point of controversy. Current prospects are that these same general issues will continue to dominate labor-management relations during the remainder of 1948, but with increasing emphasis upon indirect wage benefits such as pensions, holiday and vacation pay, and health benefits. A drive to formalize the distribution of rising productivity also appears underway following the pattern recently established in the General Motors settlement. The new interest in productivity presumably stems from (1) general expectation that this factor will assume increasing importance in influencing production during coming months and years and (2) some belief that cost of living is losing its strength as a basis for further wage increases.

Normally, the last two quarters of the year are not marked by far-reaching and severe labor disputes, the notable exception being 1945 when many work stoppages resulted from the reopening of union-management contracts immediately after the end of the war. In both 1946 and 1947, however, the *number of stoppages* in the last half of the year was greater than in the first half, but the *number of workers* and losses in output considerably smaller. The same "seasonal" pattern appears likely to hold later this year. Since most major contracts carry through the balance of 1948, the prospects are that unless the coal dispute involving the "captive mines" remains long unsettled, production is not likely to be seriously impeded because of labor-management strife.

[1]Refers to recognition, strengthening bargaining position, closed or union shop, and discrimination.

SEVENTH FEDERAL

RESERVE DISTRICT